

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Thursday, August 19, 2010

The Board of Administration met on Thursday, August 19, 2010 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:05 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Patricia Clarey
Dan Dunmoyer
Darlene Schell for Debbie Endsley
JJ Jelincic
Henry Jones
Steve Coony for Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira
Kurato Shimada

Board of Administration Members excused: none

AGENDA ITEM 3 - APPROVAL OF JUNE 2010 MEETING MINUTES

On **MOTION** by Henry Jones, **SECONDED** by George Diehr, and **CARRIED** that the June 16, 2010 Open Session minutes be approved as presented.

AGENDA ITEM 4 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- Total Fund performance for the Fiscal Year 2010 was up 11.4 percent. The upward performance trend continued in July, which saw a 4.2 percent gain for the month.
- Global equity was slightly below benchmark for the month and the quarter, but remains strongly positive for the past 12 months.
- Global fixed income was below benchmark for the quarter but did well in July and over the past 12 months.
- Real estate was slightly positive for July. Although AIM fell 1,230 basis points below benchmark, return for the 12 months ending in July was 32.1 percent.

AGENDA ITEM 5 – INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, August 16, 2010.

Additional information may be found in the August 16, 2010 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for September 13, 2010 in Sacramento, California.

AGENDA ITEM 6 - AD HOC RISK MANAGEMENT COMMITTEE

The Committee did not meet in August.

AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

Kurato Shimada, Chair, Benefits and Program Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 17, 2010.

Additional information may be found in the August 17, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED** with nay votes by George Diehr and JJ Jelincic, the Board approved the following:

 Adoption of a policy authorizing changes in retirement benefits and member contribution rates to be reflected in the employer contribution rates for the State plans immediately upon the effective date of the changes or as soon thereafter as can be accomplished given the Board's meeting schedule. As outlined in the agenda item, the change to the employer rate would be implemented prospectively, commencing with the employer's payment for the first quarter following the Board's action to change the rate.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

 Acceptance of EFI's report on the parallel valuation and certification of the actuarial valuations of contracting public agency plans as of June 30, 2008.

The next meeting of the Benefits and Program Administration Committee is scheduled for September 14, 2010 in Sacramento, California.

Patricia Clarey recused herself from the Health Benefits Committee report and left the room at this time.

AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE

Tony Oliveira, Vice Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 17, 2010.

Additional information may be found in the August 17, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Approval of the proposed regulations to conform State Regulations to extend dependent health care coverage up to age 26.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Authorization of staff to conduct direct contract negotiations for a Long-term Care Program Third-Party Administrator contract with Univita Health, LLC for a period of two (2) years with an option for a one-year extension; and, authorize staff to conduct direct contract negotiations with United Health Actuarial Services, Inc. for a period of one (1) year with options for two (2) one-year extensions. On **MOTION** by Henry Jones, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved the following:

 Amending the previous motion to include authorization of staff to negotiate a reduction in the current contract value with Univita Health LLC and United Health Actuarial Services, Inc.

The next meeting of the Health Benefits Committee is scheduled for September 14, 2010 in Sacramento, California.

Patricia Clarey returned to the room at the conclusion of the Committee report and vote.

AGENDA ITEM 9 – FINANCE COMMITTEE

The Committee did not meet in August.

AGENDA ITEM 10 – AD HOC BOARD GOVERNANCE COMMITTEE

George Diehr, Vice Chair, Ad Hoc Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Wednesday, August 18, 2010.

Additional information may be found in the August 18, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the proposed revisions to the Board's Travel Policy as set forth in Attachment A.
- Approval of the proposed revisions to the Employer Reimbursement Policy as set forth in Attachment B.

JJ Jelincic recused himself from the following Committee report and left the room.

AGENDA ITEM 11 - PERFORMANCE AND COMPENSATION COMMITTEE

Patricia Clarey, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 17, 2010.

Additional information may be found in the August 17, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- The second reading of the 2010-2011 performance plans for the Chief Executive Officer and General Counsel.
- The second reading of the 2010-2011 performance plans for the Chief Investment Officer, Chief Operating Investment officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers.

The next meeting of the Performance and Compensation Committee is scheduled for September 13, 2010 in Sacramento, California.

JJ Jelincic returned to the room at the conclusion of the Committee report and vote.

AGENDA ITEM 12 – BOARD MEETING CALENDAR

No changes were made to the Calendar.

AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

- In light of recent reports that pension fund staff may have in the past received travel from external investment managers:
 - Significant changes have been made in CalPERS policy to ensure adherence to State ethics rules:
 - A strict travel policy for investment staff was implemented in 2008 requiring transparency for all travel, and following State travel requirements.
 - A clear and concise no gift policy for CalPERS Form 700 filers was instituted in November 2009.
 - CalPERS will take all necessary steps to correct any improprieties.
- In light of recent reports on the salaries and compensation being paid to officials of the City of Bell:
 - Local elected officials, not CalPERS, are responsible for setting the salaries and benefits of their executives. CalPERS is nevertheless prepared to do its part by joining with the Attorney General to investigate the facts surrounding the salaries and compensation of the City of Bell officials.

- CalPERS is conducting a second audit of the City of Bell's compensation and payroll practices, and has placed an administrative hold on the retirement applications of certain individuals pending further review.
- CalPERS has organized a task force with representatives from employer groups, labor groups and legislative representatives to develop constructive solutions for the future.
- Ms. Stausboll commended the entire CalPERS staff for their service and outlined some of their accomplishments over the past year:
 - An investment return of 11.4 percent, and a gain of \$60 billion in the CalPERS portfolio.
 - A 20-year return of 7.9 percent.
 - CalPERS played an influential role in passage of financial market reform.
 - CalPERS sponsored placement agent reform legislation is currently before the Senate.
 - Single digit health care rate increases and a two-month premium holiday for PPO members, despite a tough economic environment.
 - High customer satisfaction levels in CalPERS call centers despite furloughs and a zero growth policy.
 - CalPERS produced the Retirement Dialogues, launched the CalPERS Responds website, and held five retirement planning fairs throughout the state.
 - CalPERS filled key executive vacancies and rebuilt a strong senior management team.
 - The business plan has been realigned with performance objectives and budgeting processes, and the organizational structure is being restructured to ensure more effective customer service and a culture that is risk intelligent and compliant.
 - PSR is back on track for a September 2011 launch of the new my|CalPERS.
 - CalPERS has launched an organization wide green initiative.
- CalPERS recently held the annual year end All Staff forum, consisting of four sessions where employees had an opportunity to ask questions and share comments with the CalPERS leadership.

 CalPERS recently held a two-day online discussion about core values with all CalPERS employees. Nearly 61 percent of staff participated, with more than 6,300 visits and 44,000 page views.

Ms. Stausboll welcomed Margaret Junker as the new Chief of Audit Services and Ann Boynton as the new Deputy Executive Officer of Benefits. She also thanked Steve Kessler for his service as interim head of Benefits in addition to his role as Deputy of Operations, and thanked Kim Malm who has been acting as Interim AEO of the Health Benefits Branch.

Ms. Stausboll recognized members of the CalPERS Sustainable Operations Program. Created in 2009, the program is responsible for developing and implementing sustainability initiatives within the organization. Major accomplishments during the past year are a LEED existing building gold certification, a default duplex printing initiative for 177 high volume printers, and a waste diversion rate of 67 percent.

A short music video that was presented at the All Staff forum was played for the Board.

President Feckner expressed appreciation for the All Staff Forum and the recent Ice Cream Social, which presented great opportunities for staff to meet and talk with Board members.

Ms. Mathur suggested a move toward more electronic communication for Board materials and some solar initiatives as part of the Sustainable Operations Program.

AGENDA ITEM 14 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The first major milestone of the recovery plan that was due on July 30 was met two weeks early.
- The next major phase re-executing system tests started on August 2, and will continue through the end of November.
- Enterprise risk management processes continue to improve the project through early implementation of mitigation strategies where needed.

John Nichols, Project Manager, Accenture, provided some highlights of the progress on the recovery effort:

- Accenture personnel on the project team now number about 270.
- The team has dramatically decreased the backlog of defects that was in place in March, and has made progress in the automated conversion.
- Testing continues, with end-to-end testing scheduled to begin in December.

Karen DeFrank, Assistant Chief, Employer Services Division, provided an update on communication efforts:

 This month, the PERT team began a series of employer education events in the CalPERS regional offices to demonstrate the new my|CalPERS functionality. To date, 529 employers with over 1,100 attendees have registered for these events. Response to the presentations thus far has been positive with respect to the new system's capabilities and ease of use.

Chris Jasper, KPMG, Project Oversight, concurred with Ms. Ruiz and said he expects to see positive progress continue.

AGENDA ITEM 15 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

- Ms. Macht provided an updated matrix on the number of public agencies engaged in pension change.
- Danny Brown and the Governmental Affairs team are closely monitoring State budget negotiations for budget trailer bills and other provisions that could have an impact on CalPERS.

AGENDA ITEM 16 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and highlighted the following.

- AB 1856 (Fong)
- SB 1139 (Correa)
- AB 1743 (Hernandez)
- AB 1821 (Ma)
- SB 1425 (Simitian)
 - George Diehr moved and JJ Jelincic seconded, that the Board change its position on SB 1425 from "support" to "support if amended" as it would impact California State University academic teaching.

- After discussion, Dr. Diehr withdrew his motion pending review by the Benefits and Program Administration Committee, and asked Mr. Brown to provide an analysis at that time.
- Newly introduced legislation related to the City of Bell.

AGENDA ITEM 17 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on financial regulatory reform:

- The SEC is expected to adopt a proxy access rule by the following week.
- A recent SEC enforcement action and settlement with the State of New Jersey related to failure to disclose pension liabilities in their municipal bond offerings.
- CalPERS was invited to a meeting between health care purchasers, the
 Department of Health and Human Services (DHHS), the Justice Department, the
 Internal Revenue Service, and others, to discuss implementation of the
 Community Living Assistance Services and Supports (CLASS) Act and
 implementation of accountable care organizations.
- DHHS is also holding a conference within a few weeks relative to the implementation of exchanges. CalPERS staff will be participating in this meeting.
- The President's Debt Commission is expected to review the issue of mandatory participation in Social Security for state and local government employees.

AGENDA ITEM 18 – PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs.

- This year CalPERS visited more than 11 newspapers across California, some of which resulted in favorable editorials.
- CalPERS website calpersresponds.com has received more than 170,000 visits in the last 10 months.
- Recent CalPERS activity has been focused on sending letters to newspaper editors and placing op-eds in a number of papers to correct the record and misinformation and communicate the good work that CalPERS is doing.
- A chart that tracks news stories either about or mentioning CalPERS was provided. The chart showed increased activity in the past three months.

AGENDA ITEM 19 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 19A through 19L.

Mr. Mixon reported that CalPERS had received the argument for 19K that morning and proposed that it be held over until the following month, there being sufficient time under the Administrative Procedures Act to do so.

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr, and **CARRIED**, the Board approved Staff's recommendations on the proposed decisions of Administrative Law Judges for 19A-L, excepting 19K.

AGENDA ITEM 20 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

Agenda Item 21 was moved to the bottom of the agenda before Item 26.

AGENDA ITEM 22 – BOARD TRAVEL APPROVALS

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 23 – DRAFT AGENDA FOR SEPTEMBER 15, 2010 MEETING

No comments.

AGENDA ITEM 24 – NEW BUSINESS AGENDA SETTING

No requests.

AGENDA ITEM 25 – PUBLIC COMMENT

No public comment.

AGENDA ITEM 21 – LITIGATION - CLOSED SESSION

The Board of Administration Open Session recessed into Closed Session at 11:49 a.m. to consider a litigation item.

Representatives of the Department of Personnel Administration and the Controller's Office recused themselves from the Closed Session litigation item and left the room.

There being nothing further to come before the Board of Administration, the meeting was adjourned at 1:21 p.m.

The next Board of Administration meeting is scheduled for September 15, 2010 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer